

## **PENGUIN GLOBAL WEALTH MANAGEMENT LLC**

### **PENGUIN GLOBAL INVESTMENT AND WEALTH MANAGEMENT PROCESS OVERVIEW**

Penguin Global Wealth Management LLC (“PG”) actively manages your assets through a global asset allocation methodology that employs low cost, tax efficient index mutual funds, exchange traded funds (“ETFs”) and occasionally, actively managed mutual funds. Penguin Global is an Investment Advisor in accordance with the provisions of the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts. Please read the section below entitled “Important Disclosure”.

- The global asset allocation methodology is specifically designed to a client’s risk profile. Penguin Global endeavors to distinguish itself from broker-dealers (UBS, Smith Barney, Merrill Lynch, Bank of America, Lehman and so forth) by offering private, customized risk management integral to its investment management process. For example, PG’s risk management is not the typical broker-dealer generic question and answer that classifies clients from “all fixed income” to “all equity”, with many points in between. Rather, it is the result of an extensive and on-going dialogue with each client. His dialogue focuses on each client’s anxiety over the probability of capital loss, the goals the client wishes to achieve and the client’s perceived need for current income.
- Penguin Global does not research or invest in individual securities. Penguin Global actively manages each Client’s individual asset allocation using a combination of original research; surveys of what leading investment managers are saying/reporting; and plain common sense regarding risk. Penguin Global believes that actively paying attention to the asset allocation by rebalancing, making decisions (“tactical decisions”) regarding overweighting and underweighting asset classes and adjusting the risk within each asset class can benefit the Client’s returns.
- As regards “active” verses “passive” investment management, Penguin is of the decided belief that for most Clients, the costs of active management of individual security selection by mutual fund managers and/or separate account managers often are greater than the gain. Penguin Global follows the lead of Burton Malkiel of Princeton University, John Bogle (formerly head of Vanguard), Robert Arnott of Research Affiliates and David Swenson of Yale Asset Management (and many other academics and investment managers) on this point.
- Penguin Global is not a financial planner concerned with the timing and magnitude of capital inflows and outflows.

Penguin Global is dedicated to a discrete set of investment and wealth management goals and processes to achieve them, as follows:

1. Increase the probability of a client achieving the average return of the capital markets year over year, utilizing strategic and active tactical global asset allocation methodology. PG utilizes a private, customized investment strategy, which is the Investment Policy Statement (“IPS”). The IPS is “negotiated” with each client. It specifies in writing the goals of the client, the degree of risk a client is comfortable with and the general investment strategy that will be implemented.
2. Accomplish the IPS with a consistent risk management that increases the probability of maintaining positive returns, year over year, so as to maximize the effects of compounding the growth of a client’s capital.
3. Provide highly personalized service, which Penguin Global characterizes as “Family Office-type Service”. Family Office-type Service can include preliminary legal advice on trust concepts and solutions, when indicated by the client’s circumstances. It also can include PG acting as the coordinator of a client’s outside consultants and advisors relative to investment and wealth management.
4. Penguin Global works for a distinct and relatively uniform group of clients. PG does not accept clients based on net worth alone. Rather, Penguin Global works only with clients that are comfortable with its global asset allocation process as implemented using the Investment Policy Statement and discretionary investment decisions (specific decisions made without the client’s approval) by PG.
5. The client investment demographic that Penguin Global seeks is that of clients whose capital would not otherwise qualify in the market for PG’s Family Office-type level of service. This level of capital under management at Penguin Global is at least \$500,000 ranging to \$10,000,000. Penguin Global has an annual set aside for a limited number of new accounts with a minimum of \$250,000. Penguin Global believes that it has established a competitive advantage over broker-dealers and other independent investment advisors by being able to provide Family-Office –type services to an otherwise underserved asset demographic.

## VALUE TO CLIENT

Penguin Global adds significant value to its clients. Penguin Global actively manages a client’s global asset allocation from a macroeconomic viewpoint. This “value added” to a client not only justifies the fee structure (discussed below), but adds to a client’s quality of life by assisting with the burden of investment and wealth management. Penguin Global’s value added includes, but is not limited to the following:

- I. Customized, private investment and wealth management services that remove our clients from the day to day chores and analyses associated with their capital. Our clients can focus their time on what they do best (their career or business) and what they like to do- from family to sports to travel.

Investment and wealth management are highly specialized and time intensive activities. Clients who formerly attempted to manage their investment capital and wealth strategies often report that they had the best of intentions, but eventually lost track and tended to let their capital “find it own

way”- with stacks of partially opened statements and the good intentions of getting the will updated or establishing the proper trust arrangements.

Making investment decisions and adhering to an investment strategy (in the case of PG, the Investment Policy Statement or IPS) are difficult to do on a casual or part-time basis. Many individual investors have a difficult time selling a poor investment because they want to be eventually proven right. Many individuals can arrive at some asset allocations decisions and begin to implement them, but lack the time and knowledge to monitor and change out investments at the proper time. Lastly, many individuals are “psychologically challenged” when investing their hard earned investment capital. It is hard to admit defeat, make a decision at the proper time, and make the time to attend to the myriad details and to avoid the desire to find only the hottest stock or mutual fund.

If you, as you read this material begin to realize that you and your family fall into these problematic areas, you are potentially a Penguin Global client.

II. Penguin Global works only with clients that understand and appreciate the value added by PG’s private and customized services. Penguin Global customizes everything it does to its client’s circumstances. This contrasts to the “platform-type services” typically offered by large broker-dealers (UBS, Smith Barney, Merrill Lynch, Bank of America, Lehman and so forth). Penguin Global has no conflicts of interest whatsoever. PG will never pitch a particular investment platform or investment. *Most importantly, Penguin Global acts as its client’s fiduciary, which is the highest standard of trust and concern for a client. Penguin Global will not act at cross purposes to its clients.*

As a client of Penguin Global, you and your family are one of a limited group of clients all of which are treated individually in a private, customized manner. As discussed below, PG does not invest in individual securities. This gives PG the time to focus all of its efforts on the custom global asset allocation that best meets the needs of each client. In addition, Penguin Global consistently emphasizes risk management coupled to cost efficient investment vehicles. Cost efficiency is important to PG clients, because it means that each client gets to keep more of their gross investment returns.

A Penguin Global client wants to protect its capital while having as a goal achieving the average return of the capital markets over time, year in and year out. A PG client will more than likely not be able to boast to friends of a large gain in a particular fund or security. A PG client will, however, be able to tell his or her friends that they have a private, profession investment and wealth manager that has thoroughly reviewed their investments, negotiated an Investment Policy Statement with them and implements the IPS daily, acting always as a fiduciary- free of conflicts, prepackaged plans and platforms and always casting an eye to cost efficiency.

## GLOBAL ASSET ALLOCATION METHODOLOGY

I. *Global Asset Allocation.* Penguin Global subscribes to the general methodology of asset allocation as advanced by Brinson, Hood and Beebower in their seminal 1986 academic study, *Determinants of Portfolio Performance* and a 1991 follow-up by Brinson, Singer and Beebower, *Determinants of Portfolio Performance II: An Update*.

These studies state, in simplest language, that asset allocation (how much capital is invested in different asset classes, such as small, mid and large capitalization equities, fixed income securities and cash) is responsible for roughly 90% of investment performance. Further, and importantly, asset allocation is far more important than individual security selection in investment performance.

Penguin Global adds value by constantly monitoring research on global asset classes. PG then makes judgments on the broad trends of the asset classes- whether to “over value” (buy), “undervalue” (sell) or hold (remain exposed or invested in) an asset class. Penguin Global implements these decisions on a discretionary basis (without consulting the client).

This decision process is broadly based on the concept of mean reversion. Mean reversion is widely accepted by finance academic studies as an explanation of how the value of an investment performs over time. Basically, investments revert to a mean value that reflects the average economic value of the security. A security has “good times”, “bad times” and “average” times. When securities are grouped into classifications of similar securities (an asset class or an index of securities) the asset class and/or index will experience similar good, bad and average times. These correspond to Penguin Global’s decision to overvalue, undervalue or hold steady an asset class.

II. *Penguin Global Strategic Asset Allocation.* The Strategic Asset Allocation is simply the total equity market classified by capitalization. This is the basis of the goal of achieving the average return of the equity capital market, by not excluding any of the components of said market, given that all asset classes eventually revert to the mean. Therefore, Penguin Global does not “bet against” any asset class at this strategic level. Fixed income asset classes are utilized as appropriate to a client’s risk profile as specified in the Investment Policy Statement. The implementation is accomplished by index mutual funds, ETFs and occasionally, actively managed mutual funds.

III. *Penguin Global Tactical Asset Allocation.* The Tactical Asset Allocation looks 12 to 36 months ahead. It is set according to a client’s risk profile as specified in the Investment Policy Statement and includes all asset classes- equity, fixed income and cash. Management of the Tactical Asset Allocation is an important value added. The Tactical Asset Allocation is global in nature. PG constantly monitors newspapers and periodicals from major world markets. This is PG’s original research. PG also monitors third party research from many major financial organizations, such as State Street Global Advisors, Barclays, Fidelity, Vanguard, UBS, Bank of America, Grantham Mayo & Otterline, Morgan Stanley and so forth. Penguin Global monitors the World Economic Forum, McKinsey and the Institute for Strategy and Competitiveness of the Harvard Business School. The typical broker-dealer advisor does not combine original and third party research. Rather, they largely rely on their organization’s research, which in the recent past has been largely conflicted with investment banking activities and other priorities of the large broker-dealer.

The result PG seeks from its Tactical Asset Allocation research is not to try and identify market peaks and valleys- market timing. Rather it seeks to identify when a particular asset class is overvalued or undervalued and to act on this hypothesis on behalf of PG's clients. The Tactical Asset Allocation is periodically rebalanced (matched) to the Strategic Asset Allocation. This is essentially trimming asset classes that have grown to a disproportionate share of the Strategic Asset Allocation. In other words, rebalancing aids PG in "selling high and buying low". The implementation is accomplished by index mutual funds, ETFs and occasionally, actively managed mutual funds.

IV. *Existing assets of client.* Penguin Global will perform a complimentary analysis of existing assets and concomitant asset allocation. Penguin Global will work with a client's existing assets and desire to hold these assets and to incorporate them into a new asset allocation. It will also point out existing assets that should be targeted for sale and replacement with PG's preferred investment implementation vehicles- index mutual funds and exchange trade funds. PG will also review and suggest strategies to deal with concentrated security positions, resulting from a client's employment and/or inheritance.

V. *Investment Policy Statement.* This is created for each client via the sum total of discussions regarding the client's risk profile and aspirations. It is a written general plan for the investment of the client's capital and becomes the document that a client uses to judge Penguin Global's performance. It is signed by the client and PG. It is monitored each year (or earlier) to reflect changes in a client's circumstances and aspirations.

## IMPLEMENTATION STRATEGY: LOW COST, TAX EFFICIENT INVESTMENT VEHICLES

### EXCHANGE TRADED FUNDS

Penguin Global implements a client's IPS using low cost (to the client), tax efficient investment vehicles. First and foremost among such investment vehicles are Exchange Traded Funds (ETFs). The main providers of ETFs include: Barclays, State Street Global Advisors, Vanguard, Fidelity, Wisdom Tree, Powershares (and many others which PG monitors until they stand the test of time). Penguin Global concentrates on those providers with the longest track records and the largest market shares- Barclays, SSGA, Vanguard and Fidelity. The advantages of ETFs are discussed below.

I. *Low investment management cost.* Most ETFs charge fees under .5% (50 basis points), with many at 20 basis points. This contrasts with actively managed mutual funds of around 1.75% (175 basis points).

II. *Tax efficiency.* Because an ETF is based on an index, capital gains that may result from the trading of an active mutual fund manager, are minimal. In addition, the manager of an ETF does not have to sell the underlying securities to pay out a seller of an ETF, as a mutual fund manager usually has to do.

III. *Immediate liquidity.* ETFs trade all day long in the same manner a stock or bond trades.

IV. *Broad based and high degree of specific asset class availability.* There are currently about 450 ETFs available, tracking indexes that range from very broad (total stock market) to quite specific (an index composed of companies engaged in water resource businesses).

V. *Outperforms most active fund managers.* In studies by Morningstar over the 10 year period from 1996 to 2006, US equity active mutual fund managers underperformed the index that their fund is matched to by 96% of large-cap value managers, 100% of mid-cap value managers and 93% of small cap value managers on an after tax (meaning after the fund pays the taxes owed on the trades made during a year) basis. Similarly, large-cap growth managers underperformed 56% of the time, mid-cap growth managers 70% and small-cap growth 31% of the time on an after tax basis. This underperformance record is worse if the last five years are reviewed.

VI. *Can include "stop loss" risk management.* Due to the fact that ETFs trade all day on an exchange, investors can benefit from stop loss and limit orders. In addition, ETFs can be sold short and can be purchased on margin.

VII. *Allows for flexibility if client wants to emphasize a particular asset class or industry.* ETFs provide Penguin Global the ability to construct a portfolio from scratch, to fine tune existing asset allocations and emphasize specific asset classes, industries, world regions and specific countries. This flexibility helps enable each investor to maximize return for the given level of risk. This risk management is one of the primary goals of Penguin and added value to individuals entrusted PG with their investment capital.

## INDEX MUTUAL FUNDS

The main providers of index mutual funds are many large mutual fund companies that also offer "no load" mutual funds. These providers include but are not limited to: Vanguard, Fidelity, and Schwab. Index mutual funds and ETFs share many positive attributes as described below.

I. *Low investment management cost.* [expand these]

II. *Tax efficient.*

III. *Broad based and with a moderate degree of specific asset class availability.*

IV. *Outperforms most active fund managers.*

V. *Permits flexibility if client wants to emphasize a particular asset or industry.*

Penguin Global's choice of either ETFs or index mutual funds is largely driven by investment management cost and whether the asset class is general or specific. Index mutual funds would tend to be used for general asset classes, while ETFs, because of their greater number of specific asset

classes would be employed for specific asset class investment. Also, in some cases the management cost of an index mutual fund is less than the similar ETF.

## RISK MANAGEMENT

I. *Inherent in the Penguin Global Process.* Inherent in Penguin Global's approach to investment risk management is the very process utilized. By using index vehicles, whether an ETF or an index mutual fund, there is inherently less risk (volatility) than what it expected in a less diverse actively managed portfolio. Less risk can equate to less return, the tradeoff of which is the "risk-return" ratio of an investment. Penguin Global strives to lower the risk of an investment in any particular asset class by using index-based investments and by seeking an absolute return of the entire actively managed asset allocation that (i) is positive; and (ii) approaches or exceeds the historical average return of the capital markets.

II. *Stop loss risk management.* Penguin Global risk management can include "stop loss" risk management afforded by trading characteristics of ETFs; which are priced all day long because ETFs trade like stocks. An ETF can have a "stop loss" order on the trading books set at any point below the purchase price. In other words, a stop loss order can be set at 10% below the purchase price and the ETF is automatically sold when it hits that price. Penguin Global then invests the proceeds of such a sale in a holding investment such as a cash fund or an ETF bond fund. Penguin Global then monitors the asset class sold out of the asset allocation to decide whether to repurchase the asset, find a more general investment as a substitute, or abandon the asset class in part or entirely.

III. *Limited number of clients per Investment Advisor Representative.* Penguin Global requires its Investment Advisor Representatives to provide the highest level of client service and to pay close attention to investment management tasks. As part of risk management, Penguin Global limits an Investment Advisor Representative to a maximum of fifty (50) client relationships.

IV. *Fiduciary duty.* Fundamental to the Investment Advisor's Act of 1940 is fiduciary duty. Fiduciary duty is the legal obligation of an Investment Advisor to always place its client's interests before its own. Fiduciary duty also means that an Investment Advisor must conduct its business in utmost good faith with full and fair disclosure of all material facts to clients. There can be no potential or actual conflict(s) of interest that an Investment Advisor cannot disclose in advance to a client.

V. *Independent, objective advice and management.* Penguin Global is not related in any manner to a registered broker-dealer. There are no hidden pressures to steer clients toward any proprietary investment platform or sponsored security. There is only a fiduciary duty of Penguin Global to act in the best interests of each client. This is the essence of independent, objective investment and wealth management advice.

VI. *Consistent methodology.* Penguin Global has limited its services to clients to a manageable universe- investment management using a consistent methodology and wealth management that focus on what PG believes to be of most use to its clients.

## IMPLEMENTATION STRATEGY SUMMARY

Investment management is accomplished via global asset allocation implemented with exchange traded funds (“ETFs”), index mutual funds and when appropriate, actively managed mutual funds. These investment vehicles broadly have in common the following attributes: low cost, transparency (easy for the manager and client to see and understand what they are invested in), tax efficiency and the ability to address many asset classes in both a “general” and “specific” manner.

Wealth management is accomplished by acting as a central compiler of a client’s investment and wealth data with the goal of consistently reviewing and commenting on same. In addition, Penguin Global is capable of providing legal advice on what trust and estate planning techniques may be appropriate. In the event a client wants to further explore such trust and estate concepts, Penguin Global will coordinate this activity with third party providers (a client’s existing attorney, accountant, financial planner and insurance advisor or Penguin Global will introduce a client to such appropriate third party advisors, if need be).

Penguin Global uses the term “Family Office-type” services to describe the above services. All Family Office-type services are included in the management fee charged by PG and further described below.

## LEGAL AND TRUST SERVICES/FAMILY OFFICE-TYPE SERVICES

Trust and estate planning involves the use of various legal vehicles to achieve property management during one’s life and post-death. Property management includes distribution; transfer tax minimization and debtor protection. Transfer taxes include estate, gift and generation skipping taxes. Transfer tax issues are primarily within the realm of federal law. Property management and debtor protection issues are primarily in the realm of state law.

Penguin Global, with its Family Office-type services endeavors to help its clients evaluate their particular fact situations and suggest solutions in the area of trust and estate planning. Such discussions are confidential in nature and fall within attorney-client privileges. However, it is important to note that Penguin Global is not in the business of finalizing a client’s trust and estate plans and drafting and implementing the legal documents. Rather, Penguin Global’s value added is in issue identification and suggestions concerning whether and what types of trust and estate vehicles might be useful to the client. This preliminary planning not only better integrates investment management and wealth management (Family Office-type services), but also prompts clients to address such issues, defines the possible solutions and works with a client’s third party counsel (or helps a client find counsel) to minimize time demands of and costs to the client.

## INVESTMENT ADVISOR REPRESENTATIVES OF PENGUIN GLOBAL

John F. Smitka, Jr.

Mr. Smitka has an undergraduate degree from Colgate University; a M.B.A. in Finance from the Carroll School of Management of Boston College, concentrating in securities analysis; and a J.D. from Boston College Law School .

Mr. Smitka's career combines the law and investment management. He has been a partner in major law firms and a corporate general counsel with a Public Utility Holding Company. On the investment side, Mr. Smitka has been a portfolio manager with Rhode Island Hospital Trust; a financial advisor with UBS, AG and most recently, a financial advisor with Bank of America Investment Services, Inc. He holds Series 7 and 66 licenses and is a licensed insurance broker and licensed real estate broker in Massachusetts.

## MANAGEMENT FEES

Penguin Global clients pay an all inclusive fee of one percent (1%) per year, which equates to 100 basis points. One quarter (1/4) of this fee (25 basis points) is deducted by the Custodian at the conclusion of each quarter. In the event Penguin Global has not managed the assets for the full quarter, the fee is pro rated. This fee is all inclusive; there are no separate trading costs. The fee also includes time spent with a client on Family Office-type services: legal analysis of trust situations and other general wealth management questions and issues. The management fee is negotiable for client's with assets under PG management in excess of \$1,5000,000.

## INDEPENDENT THIRD PARTY CUSTODIAN AND TRADING SERVICES

\_\_\_\_\_ provides custodial and performance reporting services to Penguin Global. These services include but are not limited to:

1. Custody services are provided by the third party Custodian. The Custodian provides SIPC account insurance and excess insurance with Lloyd's of London. Cash is invested in the Client's choice of Custodian's money market mutual funds. *Such cash funds are insured by SIPC and the excess carrier and not bank deposits insured by the FDIC in the event of the financial failure of the Custodian.*
2. The Custodian provides trading services to Penguin Global which are equal to or better than the average industry trading costs.
3. The Custodians provides the monthly statements and access to its website for real time review of account positions, bill paying services and other routine money management chores.
4. At the option of the Client, the Custodian can provide trust services.

## PENGUIN GLOBAL: IMPORTANT POINTS TO REMEMBER AND CONSIDER

The Penguin Global investment and wealth management process is designed and dedicated to accomplish the following:

1. Increase the probability of a client achieving the historical market rate of return year over year.
2. The probability of a client achieving the historical market rate of return is increased by stringent risk management.
3. Provide a private, customized investment and wealth management process that has significant competitive advantages over broker-dealers and independent advisors. Penguin Global is focused on a limited number of things it can do well which many competitors are not doing.
4. Risk management is inherent in the Penguin Global investment and wealth management process. The Strategic Asset Allocation is geared to a client's risk profile as written in the Investment Policy Statement. It diversifies invested capital and does not bet against an asset class.
5. Risk management is inherent in the Tactical Asset Allocation, which utilizes index-based, low cost investment vehicles which are selected by PG on the basis of original research coupled to the research of third parties. The Tactical Asset Allocation is periodically rebalanced to the Strategic Asset Allocation as conditions warrant.
6. Implementation of the Investment Policy Statement is accomplished by using cost and tax efficient index-based vehicles: ETFs and index mutual funds; which are occasionally supplemented by actively managed mutual funds. PG does not utilize individual securities.
7. Penguin Global chooses its clients carefully. A client joins a limited group of clients that are comfortable with the PG process.
8. Penguin Global provides Family-Office-type services to its clients as appropriate. This level of service can include legal advice pertaining to trust and estate issue identification and constant coordination with a client's other advisors.

## IMPORTANT DISCLOSURE

Penguin Global Wealth Management LLC is a Investment Advisor. As such, it is organized in accordance with the applicable statutes and regulations of the Securities Division of the Office of the Secretary for the Commonwealth of Massachusetts ("Division"). ***Penguin Global makes no representations whatsoever that it has been sponsored, recommended or approved, or that its abilities or qualifications have in any respect been passed upon by the Division or any officer of said Division.*** This disclosure also applies to any other state securities commission or regulatory body that may have jurisdiction over Penguin Global and its investment advisor representatives.

